

**KEYSTONE  
AREA EDUCATION AGENCY 1**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2012**

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# KEYSTONE AREA EDUCATION AGENCY 1

## OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
<b>Board of Directors</b>		
Gary Gassett	President	2013
Merle Gaber	Vice President	2013
Francis Peterson	Member	2015
Walter Pregler	Member	2015
James Moeller	Member	2015
John Ganshirt	Member	2015
Bill Withers	Member	2013
John Perrenoud	Member	2013
Tina Pech	Member	2015
<b>Agency</b>		
Gary Stumberg	Administrator	
Patrick Heiderscheit	Director of Administrative Services	
Candace Brockmeyer	Board Secretary	
Audie Baumgartner	Business Manager	Indefinite
	Treasurer	



**SCHNURR & COMPANY, LLP**  
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Keystone Area Education Agency 1  
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2012, on our consideration of Keystone Area Education Agency 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 10 and 28 through 30 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and

other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keystone AEA 1's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the ten years ended June 30, 2011 (which is not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U. S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of Keystone AEA 1's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
November 2, 2012

## **KEYSTONE AREA EDUCATION AGENCY 1**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Keystone Area Education Agency 1 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the Agency's financial statements that follow.

#### **2012 FINANCIAL HIGHLIGHTS**

General Fund revenues in 2012 (FY12) were \$23,380,758 while General Fund expenditures for FY12 were \$22,310,608. Financing uses for FY12 were \$398,418. This resulted in an increase in the Agency's General Fund balance from \$4,747,459 in FY11 to \$5,419,191 in FY12, a 14% increase from the prior year.

#### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Keystone Area Education Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, and Supplementary Information provides detailed information about the non-major funds.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **USING THIS ANNUAL REPORT (Continued)**

#### **Reporting the Agency as a Whole**

##### **Government-wide Financial Statements**

The Government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency's net assets and how they have changed. Net assets — the difference between the agency's assets and liabilities — are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, the Agency's activities consist of one category:

- *Governmental activities:* The Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Local school districts, federal and state aid finances most of these activities.

##### **Fund Financial Statements**

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds-not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as federal grants.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **USING THIS ANNUAL REPORT (Continued)**

#### **Reporting the Agency as a Whole (Continued)**

##### **Fund Financial Statements (continued)**

The Agency has one kind of fund:

- Governmental funds account for all of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, and 3) the Debt Service Fund.

The governmental funds required financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of financial position. Keystone Area Education Agency's net assets at the end of fiscal year 2012 totaled approximately \$6.57 million. The analysis that follows provides a summary of the Agency's net assets at June 30, 2012 for the governmental activities.

<b>Condensed Statement</b>				
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>
Current and other assets	\$ 7,948,020	\$ 8,426,107	\$ -	\$ -
Capital assets	3,694,209	3,513,892	-	-
<b>Total assets</b>	<b>11,642,229</b>	<b>11,939,999</b>	<b>-</b>	<b>-</b>
Long-term obligations	2,617,152	2,378,124	-	-
Other liabilities	3,174,920	2,988,753	-	-
<b>Total liabilities</b>	<b>5,792,072</b>	<b>5,366,877</b>	<b>-</b>	<b>-</b>
Net assets:				
Invested in capital assets, net of related debt	1,173,806	1,353,489	-	-
Restricted	445,684	383,430	-	-
Unrestricted	4,230,667	4,836,203	-	-
<b>Total net assets</b>	<b>\$ 5,850,157</b>	<b>\$ 6,573,122</b>	<b>\$ -</b>	<b>\$ -</b>

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**of Net Assets**

<b>Total Agency</b>		<b>Percentage Change (%)</b>
<b>2011</b>	<b>2012</b>	<b>2011-2012</b>
\$ 7,948,020	\$ 8,426,107	6.0
3,694,209	3,513,892	(4.9)
11,642,229	11,939,999	2.6
2,617,152	2,378,124	(9.1)
3,174,920	2,988,753	(5.9)
5,792,072	5,366,877	(7.3)
1,173,806	1,353,489	15.3
445,684	383,430	(14.0)
4,230,667	4,836,203	14.3
\$ 5,850,157	\$ 6,573,122	12.4

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis shows the changes in net assets for the year ended June 30, 2012:

	Changes in			
	Governmental Activities		Business-type Activities	
	2011	2012	2011	2012
Revenues:				
Program revenues:				
Charges for service	\$ 1,364,534	\$ 1,503,982	\$ -	\$ -
Operating grants and contributions	10,704,369	10,917,436	-	-
General revenues:				
Property taxes	6,066,862	6,116,735	-	-
State foundation aid	6,335,047	5,027,871	-	-
Unrestricted investment earnings	66,534	59,453	-	-
<b>Total revenues</b>	<b>24,537,346</b>	<b>23,625,477</b>	<b>-</b>	<b>-</b>
Program expenses:				
Instruction	254,817	281,771	-	-
Student support services	10,353,709	10,581,824	-	-
Instructional staff support services	6,806,897	6,647,123	-	-
General administration	3,014,773	3,140,823	-	-
Business administration	1,401,730	1,337,348	-	-
Plant operations and maintenance	950,999	766,803	-	-
Central and other support services	847	232	-	-
Community service operations	42,587	45,916	-	-
Interest on long-term debt	115,733	100,672	-	-
<b>Total expenses</b>	<b>22,942,092</b>	<b>22,902,512</b>	<b>-</b>	<b>-</b>
Increase in net assets	1,595,254	722,965	-	-
Net assets beginning of year	4,254,903	5,850,157	-	-
Net assets end of year	\$ 5,850,157	\$ 6,573,122	\$ -	\$ -

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**Net Assets**

<b>Total Agency</b>		<b>Percentage</b>
<b>2011</b>	<b>2012</b>	<b>Change (%)</b>
		<b>2011-2012</b>
\$ 1,364,534	\$ 1,503,982	10.2
10,704,369	10,917,436	2.0
6,066,862	6,116,735	0.8
6,335,047	5,027,871	(20.6)
66,534	59,453	(10.6)
24,537,346	23,625,477	(3.7)
254,817	281,771	10.6
10,353,709	10,581,824	2.2
6,806,897	6,647,123	(2.3)
3,014,773	3,140,823	4.2
1,401,730	1,337,348	(4.6)
950,999	766,803	(19.4)
847	232	(72.6)
42,587	45,916	7.8
115,733	100,672	(13.0)
22,942,092	22,902,512	(0.2)
1,595,254	722,965	(54.7)
4,254,903	5,850,157	37.5
\$ 5,850,157	\$ 6,573,122	12.4

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

Operating grants and contributions from local, state, and federal sources account for 46% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 76% of the total expenses.

#### **Governmental Activities**

Revenues for governmental activities were \$23,625,477 and expenses were \$22,902,512.

### **FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS**

As previously noted, Keystone Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported a combined fund balance that increased from \$5,193,143 to \$5,802,621.

#### **Governmental Fund Highlights**

FY'12 marked a return to the historical funding for the Agency with the absence of the federal dollars associated with the American Recovery and Reinvestment Act. Although the expenditures of two of the Agency's three divisions exceeded the respective revenues, the ending balance of each division remained at a comfortable level in relation to the FY'12 expenditures. Further, staff attrition last spring has positioned the Agency to live within its means for FY'13 without triggering a need for staff reduction. Specifically, the attrition decreased personnel cost by \$357,000 for special education, \$210,000 for instructional services, and \$183,000 for media.

#### **Budgetary Highlights**

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and State Board review, the State Board either approves the budget or returns it with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

On June 30, 2012, the Agency had invested approximately \$3.51 million, net of accumulated depreciation, in a broad range of capital assets, including land, building, computers, Media lending library and audio-visual equipment. Keystone Area Education Agency had depreciation expense of \$362,383 in FY12 and total accumulated depreciation of approximately \$6.51 million on June 30, 2012. More detailed information about capital assets is available in Note 3 to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

As FY '13 gets underway, the Agency is prepared to deliver the services expected by its member school districts. For the second consecutive year, the Iowa Legislature has imposed a \$20 million funding cut to the state's area education agencies. The Agency's portion of the cut will be approximately \$1.44 million. If the \$20 million cut is to become the norm, the Agency will have a difficult time balancing the financial squeeze of the Legislature and the declining enrollment trend choking rural Iowa with the service expectations of its member schools.

### **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Keystone Area Education Agency, 1400 2<sup>nd</sup> St N.W., Elkader, Iowa, 52043-9564.

**KEYSTONE AREA EDUCATION AGENCY 1**



## **BASIC FINANCIAL STATEMENT**

## STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash	\$ 5,596,213	\$ -	\$ 5,596,213
Receivables:			
Accounts	210,626	-	210,626
Due from other governments	2,576,208	-	2,576,208
Inventories	23,986	-	23,986
Prepaid expenses	18,923	-	18,923
Other current assets	151	-	151
Capital assets (net of accumulated depreciation)	3,513,892	-	3,513,892
<b>Total assets</b>	<b>11,939,999</b>	<b>-</b>	<b>11,939,999</b>
<b>Liabilities</b>			
Accounts payable	248,602	-	248,602
Salaries and benefits payable	2,244,144	-	2,244,144
Interest payable	15,093	-	15,093
Deferred revenue:			
Federal	6,517	-	6,517
Miscellaneous	109,130	-	109,130
Long-term liabilities			
Portion due or payable within one year:			
Capital leases	310,000	-	310,000
Compensated absences	55,267	-	55,267
Portion due or payable after one year:			
Capital leases	1,850,403	-	1,850,403
Compensated absences	176,262	-	176,262
Net OPEB liability	351,459	-	351,459
<b>Total liabilities</b>	<b>5,366,877</b>	<b>-</b>	<b>5,366,877</b>

(Continued on next page)

**KEYSTONE AREA EDUCATION AGENCY 1****Exhibit A  
(Continued)****STATEMENT OF NET ASSETS  
June 30, 2012**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Total Liabilities</b>	<b>\$ 5,366,877</b>	<b>\$ -</b>	<b>\$ 5,366,877</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,353,489	-	1,353,489
Restricted for:			
Debt service	383,430	-	383,430
Unrestricted	4,836,203	-	4,836,203
<b>Total net assets</b>	<b>6,573,122</b>	<b>-</b>	<b>6,573,122</b>
<b>Total liabilities and net assets</b>	<b>\$ 11,939,999</b>	<b>\$ -</b>	<b>\$ 11,939,999</b>

See Notes to Financial Statements.

# KEYSTONE AREA EDUCATION AGENCY 1

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and
			Contributions
<b>Functions/Programs:</b>			
Governmental Activities:			
Instruction	\$ 281,771	\$ 69,807	\$ 210,601
Student support services	10,581,824	355,226	9,539,716
Instructional staff support services	6,647,123	583,293	1,077,694
General administration	3,140,823	-	-
Business administration	1,337,348	495,656	-
Plant operations and maintenance	766,803	-	-
Central and other support services	232	-	-
Community service operations	45,916	-	89,425
Interest on long-term debt	100,672	-	-
Total	\$ 22,902,512	\$ 1,503,982	\$ 10,917,436

### General Revenues:

Property taxes  
State foundation aid  
Unrestricted investment earnings

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

**Exhibit B**

<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (1,363)	\$ -	\$ (1,363)
(686,882)	-	(686,882)
(4,986,136)	-	(4,986,136)
(3,140,823)	-	(3,140,823)
(841,692)	-	(841,692)
(766,803)	-	(766,803)
(232)	-	(232)
43,509	-	43,509
(100,672)	-	(100,672)
(10,481,094)	-	(10,481,094)
6,116,735	-	6,116,735
5,027,871	-	5,027,871
59,453	-	59,453
722,965	-	722,965
5,850,157	-	5,850,157
<b>\$ 6,573,122</b>	<b>\$ -</b>	<b>\$ 6,573,122</b>

## KEYSTONE AREA EDUCATION AGENCY 1

Exhibit C

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	Nonmajor Governmental		
	General	Funds	Total
<b>Assets</b>			
Cash	\$ 5,165,328	\$ 430,885	\$ 5,596,213
Receivables:			
Accounts	210,626	-	210,626
Due from other governments	2,576,208	-	2,576,208
Inventories	23,986	-	23,986
Prepaid expenditures	18,923	-	18,923
Other current assets	151	-	151
<b>Total assets</b>	<b>\$ 7,995,222</b>	<b>\$ 430,885</b>	<b>\$ 8,426,107</b>
<b>Liabilities and Fund Balances</b>			
Accounts payable	\$ 242,456	\$ 6,146	\$ 248,602
Salaries and benefits payable	2,217,928	26,216	2,244,144
Interest payable	-	15,093	15,093
Deferred revenue:			
Federal	6,517	-	6,517
Miscellaneous	109,130	-	109,130
<b>Total liabilities</b>	<b>2,576,031</b>	<b>47,455</b>	<b>2,623,486</b>
<b>Fund balances:</b>			
Nonspendable:			
Inventory	23,986	-	23,986
Prepaid items	18,923	-	18,923
Committed for:			
Specific special purposes	1,850,403	-	1,850,403
Restricted for:			
Media materials	1,111	-	1,111
Educator quality	88,133	-	88,133
Specific special purposes	-	383,430	383,430
Unrestricted:			
Unassigned	3,436,635	-	3,436,635
<b>Total fund balances</b>	<b>5,419,191</b>	<b>383,430</b>	<b>5,802,621</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,995,222</b>	<b>\$ 430,885</b>	<b>\$ 8,426,107</b>

See Notes to Financial Statements.

**RECONCILIATION OF THE BALANCE SHEET--  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2012**

**Total governmental fund balances (page 14)** \$ 5,802,621

*Amounts reported for governmental activities in the  
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$10,020,748 and the accumulated depreciation is \$6,506,856.

3,513,892

Long-term liabilities, including capital leases, compensated absences and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported in the funds.

(2,743,391)

**Net assets of governmental activities (page 12)**

\$ 6,573,122

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES -- GOVERNMENTAL FUNDS  
Year Ended June 30, 2012**

	<b>Nonmajor Governmental</b>		
	<b>General</b>	<b>Funds</b>	<b>Total</b>
Revenues:			
Local sources	\$ 7,680,170	\$ -	\$ 7,680,170
State sources	6,226,663	244,719	6,471,382
Federal sources	9,473,925	-	9,473,925
<b>Total revenues</b>	<b>23,380,758</b>	<b>244,719</b>	<b>23,625,477</b>
Expenditures:			
Current:			
Instruction	69,806	210,601	280,407
Student support services	10,532,497	-	10,532,497
Instructional staff support services	6,611,774	1,389	6,613,163
General administration	3,119,902	23,153	3,143,055
Business administration	1,280,809	-	1,280,809
Plant operations and maintenance	650,054	9,576	659,630
Central and other support services	232	-	232
Community service operations	45,534	-	45,534
Debt service	-	460,672	460,672
<b>Total expenditures</b>	<b>22,310,608</b>	<b>705,391</b>	<b>23,015,999</b>
Excess (deficiency) of revenues over (under) expenditures	1,070,150	(460,672)	609,478
Other financing sources (uses):			
Transfers in	-	398,418	398,418
Transfers out	(398,418)	-	(398,418)
<b>Total financing sources (uses)</b>	<b>(398,418)</b>	<b>398,418</b>	<b>-</b>
Excess of revenues and other financing sources over expenditures and other financing uses	671,732	(62,254)	609,478
Fund balances, beginning of year	4,747,459	445,684	5,193,143
Fund balances, end of year	\$ 5,419,191	\$ 383,430	\$ 5,802,621

See Notes to Financial Statements.



**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES --  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2012**

**Net change in fund balances - total governmental funds (page 16)** **\$ 609,478**

*Amounts reported for governmental activities in the  
statement of activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay in the current year as follows:

Expenditures for capital assets	\$ 195,520	
Depreciation expense	<u>(362,383)</u>	(166,863)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources	(13,454)
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Repayment of long-term debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	360,000
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Compensated absence, early retirement, and other postemployment benefit expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	<u>(66,196)</u>
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<b>Change in net assets of governmental activities (page 13)</b>	<b><u>\$ 722,965</u></b>
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See Notes to Financial Statements.

## KEYSTONE AREA EDUCATION AGENCY 1

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies

Keystone Area Education Agency 1 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 24 school districts and private schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U. S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity:

For financial reporting purposes, Keystone Area Education Agency 1 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Keystone Area Education Agency 1 has no component units that meet the Governmental Accounting Standards Board criteria.

#### B. Basis of Presentation:

**Government-wide financial statements:** The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

## **NOTES TO FINANCIAL STATEMENTS**

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **B. Basis of Presentation (continued):**

**Government-wide financial statements (continued):** The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

**Fund financial statements:** Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

#### **C. Measurement Focus and Basis of Accounting:**

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### C. Measurement Focus and Basis of Accounting (Continued):

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds that can be paid using either restricted or unrestricted resources, the Agency's policy is to pay the expenditure from restricted fund balance and then from, less-restrictive classifications – committed, assigned, and then unassigned fund balances.

#### D. Assets, Liabilities and Fund Equity:

**Cash:** Cash includes amounts in demand deposits, money market funds and certificates of deposit.

**Inventories:** Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

**Capital assets:** Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Improvements other than buildings	5,000
Furniture and equipment	1,000
Library books	Aggregated annual purchases

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	25
Improvements other than buildings	20
Furniture and equipment	5-20
Library books	5

**Salaries and benefits payable:** Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities and Fund Equity (continued):

**Deferred revenue:** Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year-end.

**Compensated absences:** Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

**Long-term liabilities:** In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

**Fund balances:** In the governmental fund financial statements, fund balances are classified in three manners. Nonspendable fund balances are amounts that cannot be spent because they are in nonspendable form or because they are legally or contractually required to be maintained intact. Restricted fund balances are amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation. Committed fund balances are amounts that can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Directors through resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same action it employed to commit these amounts. Unassigned fund balances are amounts not included in other spendable classifications.

**Restricted net assets:** In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

### Note 2. Cash and Pooled Investment

The Agency's deposits in banks at June 30, 2012 were entirely covered by Federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Cash and Pooled Investment (Continued)

**Interest rate risk.** The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

### Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 343,373	\$ -	\$ -	\$ 343,373
Total capital assets not being depreciated	343,373	-	-	343,373
Capital assets being depreciated:				
Buildings	5,400,659	-	-	5,400,659
Improvements other than buildings	93,000	-	-	93,000
Furniture and equipment	934,852	27,093	19,953	941,992
Library books	3,187,878	168,427	114,581	3,241,724
Total capital assets being depreciated	9,616,389	195,520	134,534	9,677,375
Less accumulated depreciation for:				
Buildings	3,122,633	165,359	-	3,287,992
Improvements other than buildings	66,960	4,185	-	71,145
Furniture and equipment	617,758	12,778	17,958	612,578
Library books and films	2,458,202	180,061	103,122	2,535,141
	6,265,553	362,383	121,080	6,506,856
Total capital asset being depreciated, net	3,350,836	(166,863)	13,454	3,170,519
Governmental activities capital assets, net	\$ 3,694,209	\$ (166,863)	\$ 13,454	\$ 3,513,892

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Student support services	\$ 3,039
Instructional staff support services	185,160
Business administration	49,450
Plant operations and maintenance	<u>124,734</u>
<b>Total governmental activities depreciation expense</b>	<b><u>\$ 362,383</u></b>

### Note 4. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance End of Year</b>	<b>Due Within One Year</b>
Capital leases	\$ 2,520,403	\$ -	\$ 360,000	\$ 2,160,403	\$ 310,000
Early retirement obligation	1,400	-	1,400	-	-
Compensated absences	254,265	35,907	58,643	231,529	55,267
Net OPEB liability	261,127	90,332	-	351,459	-
	<u>\$ 3,037,195</u>	<u>\$ 126,239</u>	<u>\$ 420,043</u>	<u>\$ 2,743,391</u>	<u>\$ 365,267</u>

**Capital leases:** The Agency is obligated under a lease accounted for as a capital lease. Fixed assets under a capital lease included in buildings totaled \$4,687,173 at June 30, 2012. The lease matures May 1, 2017 and requires interest at an interest rate of 4.25%. The following is a schedule of future minimum lease payments required under the capital lease as of June 30, 2012:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 310,000	\$ 88,523	\$ 398,523
2014	325,000	75,242	400,242
2015	335,000	61,323	396,323
2016	355,000	46,873	401,873
2017	835,403	34,230	869,633
<b>Total</b>	<b><u>\$ 2,160,403</u></b>	<b><u>\$ 306,191</u></b>	<b><u>\$ 2,466,594</u></b>

Payments under the agreement for the year ended June 30, 2012, including interest of \$100,672, totaled \$460,777.

## NOTES TO FINANCIAL STATEMENTS

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### Note 4. Changes in Long-term Liabilities (Continued)

**Early retirement obligation:** The Agency offered a voluntary early retirement plan to their employee that was discontinued effective June 30, 2006. Eligible employees must have completed at least fifteen years of full-time service to the Agency and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Directors. Early retirement benefits are equal to 20% of the employee's regular contractual salary in effect during the employee's last year of employment, with additional benefits available related to unused sick leave days and health insurance. Early retirement benefits will be paid in four equal installments in January and June in the years following the start of retirement. Health insurance benefits will be paid for up to five consecutive years after retirement or until the employee's 65th birthday, whichever comes first. At June 30, 2012, the Agency has no obligations due. Actual early retirement expenditures for the year ended June 30, 2012 totaled \$1,400.

### Note 5. Operating Leases

The Agency has leases for copiers and other related equipment that have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire on dates ranging from June 2012 through June 2020.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2012.

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 92,423
2014	65,139
2015	3,900
2016	1,800
2017	1,800
Thereafter	5,400
	<u>\$ 170,462</u>

Total rental expenditures for the year ended June 30, 2012 for all operating leases, except those with terms of a month or less that were not renewed, was \$118,266.



## NOTES TO FINANCIAL STATEMENTS

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### Note 6. Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the Agency is required to contribute 8.07% of annual covered salary. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 was \$1,087,473, \$932,208 and \$921,532, respectively, equal to the required contributions for each year.

### Note 7. Other Postemployment Benefits (OPEB)

**Plan description:** The Agency operates a single-employer retiree benefit plan that provides medical and prescription drug benefits for retirees and their spouses. There are 235 active and 33 retired members in the plan. Participants must be age 55 or older at retirement.

The coverage is provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the coverage as active employees, which results in an implicit rate subsidy and an OPEB liability.

**Funding policy:** The contribution requirements of plan members are established and may be amended by the Agency. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

**Annual OPEB cost and net OPEB obligation:** The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfounded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 127,429
Interest on net OPEB obligation	6,528
Other adjustments to ARC	(9,595)
Annual OPEB cost	<u>124,362</u>
Contributions made	<u>34,030</u>
Increase in net OPEB obligation	90,332
Net OPEB obligation beginning of year	<u>261,127</u>
Net OPEB obligation end of year	<u><u>\$ 351,459</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Other Postemployment Benefits (OPEB) (Continued)

**Annual OPEB cost and net OPEB obligation (continued):** For the year ended June 30, 2012, the Agency contributed \$1,949,482 to the plan. Plan members eligible for benefits contributed \$400,255 to the plan.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
June 30, 2012	\$ 124,362	35.38%	\$ 351,459
June 30, 2011	221,915	84.98	261,127
June 30, 2010	11,028	12.19	90,497
June 30, 2009	79,469	0.00	79,469

**Funded status and funding progress:** As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2012, the actuarial accrued liability was \$1.039 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.039 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$13,635,000, and the ratio of the UAAL to covered payroll was 7.62%. As of June 30, 2012, there were no trust fund assets.

**Actuarial methods and assumptions:** Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2010 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.50% discount rate based on the Agency's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial report as of June 30, 2009 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2009.

## **NOTES TO FINANCIAL STATEMENTS**

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### **Note 8. Risk Management**

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**KEYSTONE AREA EDUCATION AGENCY 1**

## **REQUIRED SUPPLEMENTARY INFORMATION**

**KEYSTONE AREA EDUCATION AGENCY 1****STATEMENT OF REVENUES, EXPENDITURES/EXPENSES  
AND CHANGES IN BALANCES -- BUDGET AND ACTUAL  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND****Required Supplementary Information****Year Ended June 30, 2012**

	<b>Governmental Fund Types Actual</b>	<b>Proprietary Fund Types Actual</b>	<b>Total Actual</b>
Revenues:			
Local sources	\$ 7,680,170	\$ -	\$ 7,680,170
State sources	6,471,382	-	6,471,382
Federal sources:	9,473,925	-	9,473,925
<b>Total revenues</b>	<b>23,625,477</b>	<b>-</b>	<b>23,625,477</b>
Expenditures/Expenses:			
Current:			
Instruction	280,407	-	280,407
Student support services	10,532,497	-	10,532,497
Instructional staff support services	6,613,163	-	6,613,163
General administration	3,143,055	-	3,143,055
Business administration	1,280,809	-	1,280,809
Plant operations and maintenance	659,630	-	659,630
Central and other support services	232	-	232
Community service operations	45,534	-	45,534
Debt service	460,672	-	460,672
<b>Total expenditures/expenses</b>	<b>23,015,999</b>	<b>-</b>	<b>23,015,999</b>
<b>Excess (deficiency) of revenues over (under) expenditures/expenses</b>	<b>609,478</b>	<b>-</b>	<b>609,478</b>
Balance, beginning of year	5,193,143	-	5,193,143
Balance, end of year	\$ 5,802,621	\$ -	\$ 5,802,621

See accompanying Independent Auditor's Report.

Budget		Final to Actual Variance - Favorable (Unfavorable)
Original	Final	
\$ 7,480,885	\$ 7,613,056	\$ 67,114
7,962,337	6,468,288	3,094
8,387,328	8,508,732	965,193
23,830,550	22,590,076	1,035,401
246,104	284,175	3,768
10,836,325	10,568,196	35,699
7,043,160	6,889,044	275,881
3,246,201	3,203,569	60,514
1,412,841	1,417,813	137,004
879,828	801,013	141,383
3,000	2,200	1,968
61,924	58,522	12,988
460,777	460,777	105
24,190,160	23,685,309	669,310
(359,610)	(1,095,233)	1,704,711
5,350,344	5,193,143	-
\$ 4,990,734	\$ 4,097,910	\$ 1,704,711

**KEYSTONE AREA EDUCATION AGENCY 1**  
**June 30, 2012**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**

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This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with U. S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

For the year ended June 30, 2012, the Agency's expenditures/expenses did not exceed the approved budget.



**KEYSTONE AREA EDUCATION AGENCY 1****Schedule of Funding Progress for the Retiree Health Plan (In Thousands)****Required Supplementary Information**

<b>Year Ended June 30,</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a)/c)</b>
2009	7/1/2008	\$ -	\$ 1,023	\$ 1,023	0.00%	\$ 13,459	7.60%
2010	7/1/2008	-	1,023	1,023	0.00%	14,047	7.28%
2011	7/1/2010	-	1,039	1,039	0.00%	13,533	7.68%
<b>2012</b>	<b>7/1/2010</b>	<b>-</b>	<b>1,039</b>	<b>1,039</b>	<b>0.00%</b>	<b>13,635</b>	<b>7.26%</b>

## **OTHER SUPPLEMENTARY INFORMATION**

## KEYSTONE AREA EDUCATION AGENCY 1

## Schedule 1

**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2012**

		<div> <div>Special Revenue</div> <div>Juvenile Home</div> <div>Debt Service</div> <div>Total</div> </div>		
<b>Assets</b>				
Cash		\$ 32,362	\$ 398,523	\$ 430,885
<b>Total assets</b>		<b>\$ 32,362</b>	<b>\$ 398,523</b>	<b>\$ 430,885</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable		\$ 6,146	\$ -	\$ 6,146
Interest payable		-	15,093	15,093
Salaries and benefits payable		26,216	-	26,216
Total liabilities		32,362	15,093	47,455
Fund balances:				
Unreserved, undesignated fund balance		-	383,430	383,430
<b>Total liabilities and fund balances</b>		<b>\$ 32,362</b>	<b>\$ 398,523</b>	<b>\$ 430,885</b>

See Accompanying Independent Auditor's Report.

## KEYSTONE AREA EDUCATION AGENCY 1

## Schedule 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2012**

	<b>Special Revenue</b>		
	<b>Juvenile</b>	<b>Debt</b>	
	<b>Home</b>	<b>Service</b>	<b>Total</b>
Revenues:			
State sources	\$ 244,719	\$ -	\$ 244,719
<b>Total revenues</b>	<b>244,719</b>	<b>-</b>	<b>244,719</b>
Expenditures:			
Current:			
Instruction	210,601	-	210,601
Instructional staff support services	1,389	-	1,389
General administration	23,153	-	23,153
Plant operations and maintenance	9,576	-	9,576
Debt service	-	460,672	460,672
<b>Total expenditures</b>	<b>244,719</b>	<b>460,672</b>	<b>705,391</b>
<b>Deficiency of revenues (under) expenditures</b>	<b>-</b>	<b>(460,672)</b>	<b>(460,672)</b>
Other financing sources:			
Transfers in		398,418	398,418
	-	398,418	398,418
<b>Excess of revenues and other financing sources over expenditures</b>	<b>-</b>	<b>(62,254)</b>	<b>(62,254)</b>
Fund balances beginning of year	-	445,684	445,684
Fund balances end of year	\$ -	\$ 383,430	\$ 383,430

See accompanying Independent Auditor's Report.

**KEYSTONE AREA EDUCATION AGENCY 1****SCHEDULE OF REVENUES BY SOURCE AND  
EXPENDITURES BY FUNCTION****ALL GOVERNMENTAL FUND TYPES****For the Last Ten Years**

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Revenues:				
Local	\$ 7,680,170	\$ 7,505,889	\$ 7,418,063	\$ 7,176,257
State	6,471,382	7,844,686	6,889,970	7,639,313
Federal	9,473,925	9,186,771	14,253,568	9,334,486
<b>Total</b>	<b>\$ 23,625,477</b>	<b>\$ 24,537,346</b>	<b>\$ 28,561,601</b>	<b>\$ 24,150,056</b>
Expenditures				
Instruction	\$ 280,407	\$ 254,436	\$ 166,251	\$ 254,911
Student support services	10,532,497	10,264,301	14,506,428	11,588,519
Instructional staff support services	6,613,163	6,704,588	7,067,820	6,575,140
General administration	3,143,055	3,007,220	2,999,018	2,969,745
Business administration	1,280,809	1,447,176	1,574,380	1,286,058
Plant operations and maintenance	659,630	663,046	745,214	757,033
Central and other support services	232	847	586	199
Community service operations	45,534	41,880	94,240	58,770
Facilities acquisition and construction	-	-	-	-
Debt service	460,672	460,733	444,654	432,385
<b>Total expenditures</b>	<b>\$ 23,015,999</b>	<b>\$ 22,844,227</b>	<b>\$ 27,598,591</b>	<b>\$ 23,922,760</b>

See accompanying Independent Auditor's Report.

**Schedule 3**

<b>Modified Accrual Basis</b>					
<b>Years Ended June 30,</b>					
<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
\$ 7,027,608	\$ 6,699,556	\$ 6,552,694	\$ 6,402,127	\$ 6,135,625	\$ 5,926,165
6,864,814	5,721,745	5,175,879	4,923,883	4,891,443	5,588,592
8,366,891	8,719,971	8,870,515	8,502,948	7,665,784	6,644,135
\$ 22,259,313	\$ 21,141,272	\$ 20,599,088	\$ 19,828,958	\$ 18,692,852	\$ 18,158,892
\$ 638,042	\$ 377,243	\$ 294,653	\$ 121,543	\$ 117,248	\$ 94,162
9,783,157	9,337,230	9,438,835	9,322,347	8,422,985	7,666,455
5,934,985	5,720,022	5,699,278	5,402,081	5,624,220	5,242,624
2,985,714	2,872,640	3,005,570	2,979,545	2,691,044	2,618,878
1,383,903	1,294,592	1,192,424	758,353	571,982	476,412
726,456	725,009	671,528	630,566	768,618	565,719
625	576	2,421	192,599	296,276	320,905
83,388	87,292	85,828	-	-	-
-	-	127,727	-	-	-
413,950	462,950	453,513	361,701	345,683	363,047
\$ 21,950,220	\$ 20,877,554	\$ 20,971,777	\$ 19,768,735	\$ 18,838,056	\$ 17,348,202

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2012**

<b>Project Title</b>	<b>CFDA Number</b>	<b>Pass-through Grantor's Number</b>	<b>Expenditures</b>
Indirect:			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education Cluster (IDEA):			
Special Education - Grants to States:	84.027		
Parent-Educator Connection - 2011-2012		07401	\$ 89,425
Rate Education Evaluation Reports		057412	3,768
IDEA - Part B 2011-2012		101001	6,615,864
IDEA - Part B - LEA Flow-Through 2011-2012		1KB2-01	1,695,070
			<u>8,404,127</u>
Teach Town Expansion Project - Section 619 2011-2012	84.173	020612	<u>66,306</u>
iPad Project - Section 619 Project 2011-2012	84.173	020612	<u>1,570</u>
QPPS Verification Site Visits 2011-2012	84.173	029911	<u>23,842</u>
Section 619 Project 2011-2012	84.173	1011619-01	<u>233,461</u>
Secondary Professional Development 2010-2011	84.323	SPDG-01	18,464
Secondary Professional Development 2011-2012	84.323	SPDG-01	19,577
			<u>38,041</u>
Special Education - Grants for Infants and Families: IDEA - Part C Project - 2011-2012	84.181	C10-01	<u>213,411</u>
Vocational Ed - Basic Grants to States	84.048A		<u>195,455</u>
Title III - English Language Acquisition - 2010-2011	84.365	ELA 10-0312	40,007
Title III - English Language Acquisition - 2011-2012	84.365	ELA 11-001	12,458
			<u>52,465</u>
Iowa Safe & Supp Sch, Servey Design - 2011-2012	84.184Y	1553-A-01	<u>47,067</u>
Iowa Safe & Supp Sch, Learning Supp. - 2011-2012	84.184	1553-B-01	<u>86,137</u>

(Continued on next page)

## KEYSTONE AREA EDUCATION AGENCY 1

Schedule 4  
(Continued)SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2012

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect (Continued):			
U. S. Department of Education:			
Passed-through Iowa Department of Education (Continued):			
Enhancing Education Through Technology - 2010-2011	84.318		\$ 31,280
Enhancing Education Through Technology - 2011-2012		G20718	26,939
			<u>58,219</u>
Passed-through an Iowa LEA:			
Title II, Part A - 2010-2011	84.367	Project 4643	1,170
Title II, Part A - 2011-2012	84.367	Project 4643	13,479
			<u>14,649</u>
Passed-through an AEA:			
ARRA - Ed Tech Online/eCurr. Initiative - 2011-2012	84.386	Project 4023	2,354
Safe and Drug Free Schools - 2007-2008	84.186	Project 4591	67
U. S. Department of Health and Human Services:			
Passed-through Iowa Department of			
Medicaid Reimbursement:			
Medicaid Direct Services, Part B - 2011-2012	93.778		12,434
Medicaid Direct Services, Part C - 2011-2012	93.778		24,320
			<u>36,754</u>
			<u>\$ 9,473,925</u>

**Basis of Presentation:** The Schedule of Expenditures of Federal Awards includes the federal grant activity of Keystone Area Education Agency 1 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.



**KEYSTONE AREA EDUCATION AGENCY 1**

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



**SCHNURR & COMPANY, LLP**  
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Keystone Area Education Agency 1  
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 (the "Agency"), as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated November 2, 2012. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Agency's responses to the findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Agency's responses, we did not audit the responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency, and other parties to whom the Agency may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
November 2, 2012

**KEYSTONE AREA EDUCATION AGENCY 1**

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**



**SCHNURR & COMPANY, LLP**

**Certified Public Accountants and Consultants**

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors of  
Keystone Area Education Agency 1  
Elkader, Iowa

**Compliance**

We have audited the compliance of Keystone Area Education Agency 1 (the "Agency") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2012. The Agency's major federal programs are identified in Part 1 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

## **Internal Control Over Compliance**

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in the Agency's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency and other parties to whom the Agency may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Schurr & Company, LLP*

Fort Dodge, Iowa  
November 2, 2012



# **KEYSTONE AREA EDUCATION AGENCY 1**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2012**

### **Part I: Summary of the Independent Auditor's Results**

- (a) Unqualified opinions were issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed.
- (c) The audit did not disclose any noncompliance that is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
  - Special Education Cluster (IDEA):
    - CFDA Number 84.027 – Special Education – Grants to States
    - CFDA Number 84.173 – Special Education – Preschool Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keystone Area Education Agency 1 qualified as a low-risk auditee.

### **Part II: Findings Related to the Financial Statements:**

#### **Instances of Non-Compliance:**

No matters were reported.

#### **Significant Deficiencies:**

No matters were noted.

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2012**

**Part III: Findings and Questioned Costs For Federal Awards:**

**Instances of Non-Compliance:**

No matters were reported.

**Significant Deficiencies:**

No matters were noted.

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-12 Budget: Expenditures during the year ended June 30, 2012 did not exceed the amounts budgeted.

IV-B-12 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-12 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted. In certain instances we noted reimbursement of personnel mileage expenses that were in excess of those allowed by the Agency's "Reimbursement of Personnel Claims" policy. While all claims in question were subject to the Agency's review and approval process, some were in excess of the mileage allowed by the policy.

Recommendation – We recommend that the Board of Directors, Agency management and Agency staff review the "Reimbursement of Personnel Claims" policy. The Agency policy should be properly communicated to all Agency staff. Procedures with respect to the approval of travel expense claims should be reviewed and adjusted accordingly so that all future claims are in accordance with the Agency policy.

Response – We will review the "Reimbursement of Personnel Claims" policy and communicate it to all staff. In addition, procedures with respect to the approval of travel expense claims will be reviewed and adjusted where necessary.

Conclusion – Response accepted.

IV-D-12 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.

IV-E-12 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-F-12 Board Minutes: No transactions requiring Board approval were noted which had not been approved.

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2012**

**Part IV: Other Findings Related to Required Statutory Reporting (Continued):**

- IV-G-12    Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Agency's investment policy were noted.
- IV-H-12    Certified Annual Report: The Certified Annual Report (CAR) was certified timely to the Iowa Department of Education.
- IV-I-12    Categorical Funding: No instances were noted of categorical funding used to supplant rather than supplement other funds.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
November 2, 2012